Ellerston Overlay Australian Share Fund (OASF)

Performance Report, September 2022

Investment Objective
The Investment objective for the Ellerston Overlay ASF is to outperform the S&P/ASX 200 Accumulation Index (Benchmark).

Investment Strategy
The Fund uses a benchmark-independent, high conviction approach that looks beyond investing in the Top 20 stocks in order to capture the neglected opportunities created by under-researched stocks in the broader Australian market.

Key Information

Class Inception**[**]**	1 July 2011
Portfolio Manager	Chris Kourtis
Application Price	$0.9687
Net Asset Value	$0.9663
Redemption Price	$0.9639
Liquidity	Weekly
No Stocks	18
Management Fee	0.90% p.a.
Performance Fee	15% p.a. of outperformance
Buy/Sell Spread	0.25% on application 0.25% on redemption

Performance Class A (%)	1 Month	FYTD	1 Year	2 Years (p.a.)	3 Years (p.a.)	Since Inception (p.a.)**
Net^	-6.84	-1.84	-6.75	13.06	4.23	6.68
Benchmark*	-6.17	0.39	-7.69	9.78	2.67	7.89

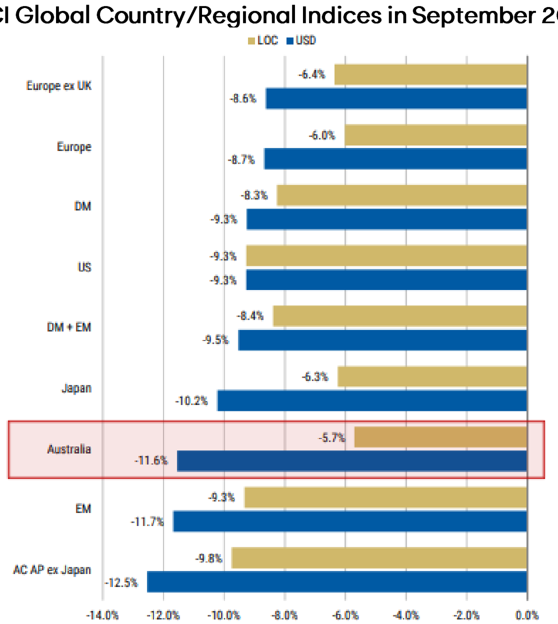
^Net return figure is calculated after fees & expenses. Past performance is not a reliable indication of future performance.
*The benchmark was changed from the S&P/ASX 200 Accumulation Ex REITS Index to the S&P/ASX 200 Accumulation Index on 1 July 2012

MARKET OVERVIEW

In a dismal month for risk assets, major world indexes posted their lowest finish since 2020 (the MSCI World Developed Index - 9.3% in USD terms) and logged a third straight quarterly decline, as investors grew more fearful that aggressive interest rate hikes by the Fed will drive the US economy towards a hard landing. This left the S&P 500 and Dow Jones Industrial Average with their biggest monthly losses since March 2020. For the month, the S&P 500 fell 9.2%, while the Dow dropped 8.8% and the Nasdaq Composite declined 10.5%. The Nasdaq's sharp drop marked its worst September performance since 2008.

Australian stocks fell along with global equity markets in September, with the ASX 200 down 6.2%. The fall was driven by the same factors that have impacted markets through most of 2022; rapid tightening by central banks, the market's realisation that hikes will continue due to persistent rampant inflation, and the increasing risk that policy tightening leads to a deep US recession in 2023. Fed Chair Powell's comment that "We must keep at it until the job is done", seems to have finally resonated with investors.

MSCI Global Country/Regional Indices in September 2022



Source: Morgan Stanley.

USA

Economic indicators softened further during the month, but inflation and employment data remained elevated. August nonfarm payrolls climbed by 315k, another strong gain, but a sharp deceleration from the 526k in July. The unemployment rate bounced 0.2% to 3.7%, the highest since February, on the back of a surge in the labour force. The August core CPI at +0.6% MoM (+6.3% YoY) was worse than expected and so too was headline inflation at +0.1% MoM (+8.3% YoY). The CPI print raised the odds of a 75bps hike, which ensued at the next FOMC meeting, where the Fed Fund Rate was lifted by 75bps to 3.0%-3.25%.

Fed officials believed that investors were misreading their intentions, given their objective of cooling the economy to combat four decade high inflation. In his widely anticipated speech, Chairman Jerome Powell was totally blunt, apparently scrapping his original address and instead, delivered unusually brief remarks with a key message - the Fed was prepared to accept a recession as the price of fighting inflation. Powell cited the example of former Fed chairman Paul Volcker, who drove the economy into a hard landing in the early 1980s with punishing interest rate increases to break the back of double-digit price gains. "We must keep at it until the job is done," Mr. Powell said, invoking the title of Mr. Volcker's 2018 autobiography, "Keeping At It."

Released on the last day of the month, the US August Personal Consumption Expenditure Price Index (PCE Deflator) rose 0.3% MoM in August, higher than market expectations of +0.1%. The +6.2% YoY reading was a step down from July's 6.4% pace, but hotter than the 6.0% forecast. Core PCE (ex food and energy) was also up 0.6% MoM and above the 0.5% consensus and July's flat reading. This resulted in a YoY rate of 4.9% (after dropping to a 4.7% annual pace in July). The Core PCE deflator is a key inflation focus by the Fed and sets the scene for another 75bps hike at their next meeting in early November.

The final wash up was the Dow Jones Industrial Average closing down 8.8%, the S&P 500 finished 9.3% lower, with the NASDAQ Composite Index the laggard, posting a 10.5% fall.

Europe

Eurozone activity indicators also continued to weaken with its composite PMI dropping to 48.2. Both services and manufacturing output were well below 50 at 48.9 and 46.2 respectively, signalling broad-based contracting business activity, with the manufacturing sector bearing the brunt of the economic problems. Supply chain issues are still disrupting production, but weaker global demand has reduced work backlogs as new orders are decreasing quickly. Incidental production stoppages due to high energy costs are also adding to declining production.

The European Commission reported that consumer prices in the countries using the euro as their currency rose at an annual rate of 10% in September, again reaching the highest level since the creation of the euro more than two decades ago. The double-digit pace was a big jump from 9.1% in August, with core inflation of 4.8% YoY, up from 4.3% in August. The ECB which still targets inflation at 2%, has indicated it intends to keep raising rates until price growth slows down appreciably. The ECB has raised its deposit rate by 1.25% at its last two policy meetings and markets are now pricing in a further 0.75% rise on October 27. Other European countries have joined the US Fed's aggressive anti-inflation push in September - Hungary (+1.25%), Sweden (+1.0%), Norway (+0.5%) and Poland (+0.25%).

It was a tumultuous month in Britain. The UK raised its key rate by 0.5% to 2.25%, with the Bank of England (BOE) then staging a dramatic intervention move to stave off an imminent crash in the gilt market by pledging unlimited purchases of long-dated bonds. With the fallout from Prime Minister Liz Truss's unfunded tax cuts still ripping through UK asset prices, the central bank had been warned that collateral calls could force investors to dump government bonds. The BOE was forced that day to purchase over £1 billion of securities maturing in 20 years or more, less than the £5 billion it said it was prepared to buy at each auction, signalling that it would continue every weekday until Oct 14. The announced policy intervention had an immediate impact on the gilt market, sending 30-year yields to their biggest drop on record, after earlier climbing to their highest since 1998. The BOE warned that continued dysfunction would threaten financial stability and even damage the economy. It also delayed the start of its plan to commence actively selling its existing holdings of bonds. "The purchases will be carried out on whatever scale is necessary", the BOE said, language reminiscent of former European Central Bank President Mario Draghi's 2012 pledge to do "whatever it takes" to save the euro.

The Euro STOXX50 Index finished the month down 5.6%. Among the major exchanges, France's CAC 40 was 5.8% lower, Germany's DAX fell 5.6% and UK's FTSE 100 ended 5.2% lower.

Asia

China's economic activity for August was stronger as retail sales, industrial production and FAI all came in better than market expectations, partly due to the low base last year. While infrastructure investment accelerated and automobile sales and production were solid, other economic activities remain subdued, with property construction particularly weak and yet to bottom. Exports fell away notably in August, driven by reduced global demand and slowdown in electronics exports. The anaemic 3Q recovery and ongoing property downturn is likely to trigger more easing, especially policies coming out of the late October Politburo meeting and/or the December Economic Work Conference.

Asian equity markets failed to buck the global sell-off with India's SENSEX down 3.5% (but still continues to be a relative outperformer). The China SSE also finished 5.8% lower, the Nikkei 225 dropped 7.0%, followed by the Korean KOSPI which fell 12.8% and the Hang Seng was the laggard, down 13.2%.

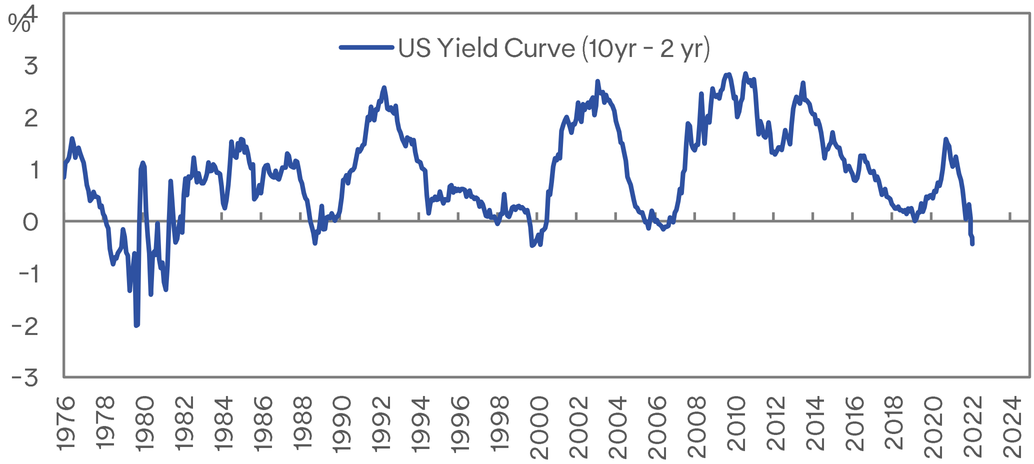
Commodities

Commodity prices were weaker across the board as the yield curve inverted further and the US$ continued to strengthen. The Brent oil price was a major casualty, retreating 9% to US$88/barrel amid the deteriorating demand outlook. Natural gas prices fell in Europe and Asia, albeit still at elevated levels (~3 times the oil equivalent). The European TTF spot gas price dropped 34% to US$47/MMBtu and the JKM spot LNG price ended 28% lower at US$39/MMBtu. The main cause was the building of European gas storage to 85% of capacity ahead of the coming winter season, despite the Russian shenanigans with Nord Stream 1 pipeline output levels. Despite lower gas prices, thermal coal prices remained relatively steady, down 4% to US$408/tonne. Iron ore eased 5% to US$96/tonne and coking coal was resilient, down 1% to US$271/tonne. The base metals complex was weak, with the major metals; aluminium and copper down 8% and 2% respectively, and nickel down 1%. Gold eased 3% to US$1661/ounce, given the stronger greenback and higher bond yields.

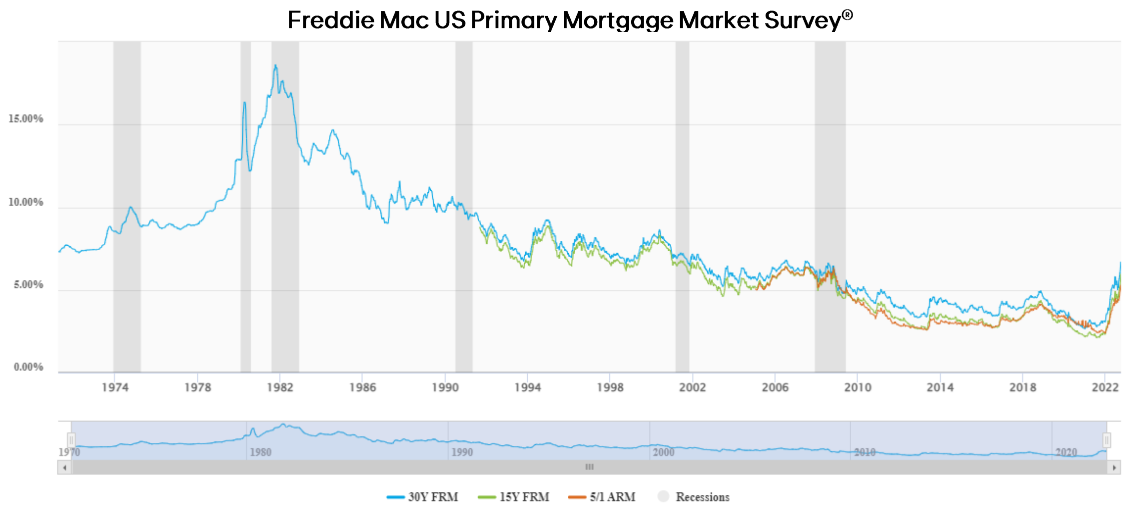
Bonds

Global bonds reflected the hawkish outlook and sold-off materially in September, as the Fed made it clear that it was prepared to accept a recession as the price of fighting inflation, with other central banks following suit. The aggressive Fed rate hikes have now cemented an inverted yield curve. The dramatic impact on 30 year fixed mortgage rates has seen them rise from 3.0% to 6.7% over the past 12 months, the highest since July 2007.

The US 10-year treasury yield finished up a whopping 67bps to 3.80% after the US August PMI data beat consensus and the Australian 10-year bond yield rose 29bps to 3.89%.



Source: Goldman Sachs.



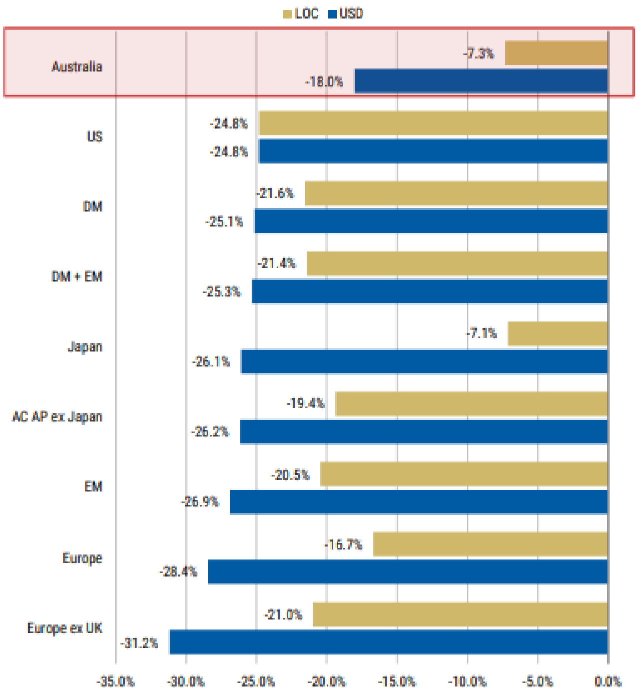
Source: Freddie Mac.

Australia

As expected, the Reserve Bank of Australia (RBA) at its September meeting hiked the cash rate by 50bps to 2.35%. Governor Lowe's messaging continued to emphasize high inflation and the resilience of the domestic economy, flagging further tightening to come with rates still at the low end of their "normal" range. Labour market conditions remain strong in August with the unemployment rate edged up 0.1% to 3.5% after July's 48-year as 33k jobs added in the month was offset by as the participation rate rose from 66.4% to 66.6%, just 0.2% down from the all-time high of 33.8%. The August CPI (the first monthly print rather than quarterly) rose 6.8% compared to 2Q rate of 6.1%. Combined with a stronger than expected August retail sales rising +0.6% MoM (+19.2% YoY) the market expects the RBA to raise by 50bps in early October, however, as RBA Governor Lowe highlighted in his Anika Foundation speech on 8th September, he opened the gate to smaller rate increases -" We are conscious that there are lags in the operation of monetary policy and that interest rates have increased very quickly. And we recognise that, all else equal, the case for a slower pace of increase in interest rates becomes stronger as the level of the cash rate rises." The RBA review which is underway puts them under the microscope so anything is possible. At the time of writing the RBA surprised by raising the cash rate by only 25bps to 2.60%.

The AUD dropped 6% lower at US$0.64, given the stronger US dollar and weaker commodity prices.

The Australian share market outperforms Global Peers in CYTD22 - 2nd in Local Currency and 1st in USD terms



Source: Morgan Stanley.

In September, the S&P/ASX 200 Accumulation Index finished 6.2% lower, continuing to outperform most global peers for the calendar year to date. Resources (-2.1%, benefitting from the lower A$ and the large dividend payments in the leaders), once again outpaced Industrials during the month. The Materials sector (down 2.3%) was the best performer, followed by Energy (down 3.8%) and then Health Care (-4.4%). The bottom three sectors were interest rate sensitives, namely Utilities (-13.8%), Real Estate (-13.6%), followed by Information Technology (-10.6%).

For the month, the top stocks that made a positive contribution to the Index's return were: BHP Group (+12bps), Pilbara Minerals (PLS +11bps), Whitehaven Coal (+6bps), Resmed (+3bps), and New Hope Corporation (+3bps). Conversely, the bottom five stocks detracting from the Index's performance were: Commonwealth Bank (-57bps), Macquarie Group (-45bps), Goodman Group (-32bps), National Australia Bank (-28bps) and Transurban Group (-24bps).

The ASX Small Ordinaries finished down 11.2%, significantly lagging the broader benchmark by 5.0% and within the ASX Small Ordinaries, the Small resources were down 13.5%. The top five consensus earnings upgrades were Liontown Resources (+217.2%), Aurelia Metals (+66.3%), MyState (+21.5%), Silver Lake Resource (+19.6%) and New Hope Corporation (+19.2%). The top five downgrades included Megaport (-444.1%), Strike Energy (-105.8%), Telix Pharmaceutical (-51.4%), Novonix (-44.1%) and Boss Energy (-41.1%).

Consensus earnings revisions for the broader market were flat over the month, but the forecasts have been downgraded by ~3.0% over the past three months. Within the S&P/ASX200, during the month, Energy (+4.4%), Consumer Discretionary (+2.0%), Industrials (+0.8%) and Financials (+0.8%) were the key sectors with positive revisions. Utilities (-2.7%), Materials (-2.4%) and Health Care (-1.4%) had negative revisions.

COMPANY SPECIFIC NEWS

The Market Hits

New Hope Corporation (NHC +28.4%) / Whitehaven Coal (WHC +18.9%)

Both NHC and WHC were beneficiaries of the sustained, near record level of thermal coal prices, with the Newcastle benchmark price down 4.0% to US$408/tonne, coupled with the Australian dollar which dropped 6% during the month. NHC also reported a whopping $983m net profit vs.$79m in pcp, declared a final dividend of $0.31 and a special dividend of $0.25 per share - around a 9% final dividend yield (full year dividend yield was 30%!). The yield was so attractive that Chairman Rob Milner, topped up his existing holding with an additional $1.86m worth of shares late in the month. NHC stated they expect to continue paying special dividends, but are also assessing share buybacks.

Pilbara Minerals (PLS +24.9%)

Existing Australian lithium producers did much better than their foreign developers, as the Australian FOB Spodumene price shot up 10% to US$7000 per tonne. PLS, now a profitable Spodumene producer, generated $648m of cash from operations in FY22 compared to a paltry $19m in FY21. PLS bucked the trend by outperforming its local and international peers, which were down for the month.

Megaport (MP1 +7.3%)

Global Software Defined Network (SDN) provider MP1, with an emphasis on cloud connectivity, is highly leveraged to the rapid growth in the global cloud and data centre thematic. After underperforming in August, down 25% due a poor trading update, MP1 rallied early this month as tech stocks re-bounded, with short covering the main driver. The shares later fell 12%, but still ended the month in positive territory.

Coronado Global Resources (CRN +6.7%)

Coking Coal producer CRN benefitted from the weaker Australian dollar and the steady coking coal price. After the 43% rebound in August, the export benchmark price was down only 1% to $271/tonne this month.

De Grey Mining (DEG +6.1%)

DEG released its pre-feasibility study (PFS) for its Mallina gold project in the Pilbara, anticipating overall gold production of 6.4Moz, up 49% over the Scoping Study (SS). Mine life was extended to 13.6-years, up 14% from the SS and production in years 1-5 has been boosted to 550koz, 16% above the SS estimate. The PFS release initially propelled the stock by 20% over the next few trading days, however, it retreated as appreciation of the 18% higher capital spend of $1.1bn spooked investors. The increased capex is in a sector that has a number of large projects all looking for skilled labour, and has increased the risk of an adequate rate of return being achieved. Also, DEG will at some stage need to come to market for a big chunk of the capital spend, given it only has $64m of cash on the balance sheet.

Premier Investments (PMV +6.0%)

Premier Investments (PMV) announced its FY22 results and delivered an exceptional set of numbers, with strength evident across all it business lines. Gross margins were strong at 64.8%, driving profit comfortably ahead of expectations. Performance across key metrics included:

- Revenues of $1,498m (+5.2% YoY), 4.0% ahead of consensus ($1,441m).
- Gross profit of $970m (+6.0% YoY) and 5.0% ahead of consensus ($925m).
- Underlying Premier Retail EBIT (pre-AASB 16) of $335m (+10% YoY) and 2.0% ahead of consensus ($328m). This was 100% ahead of underlying FY19 pre-COVID EBIT of $167.3m.
- Statutory NPAT of $285m (+4% YoY) and 15% ahead of consensus ($248m).

The enviable balance sheet (with $402.3m of net cash and a franking pool of $289.7m) is globally leading, which enabled the board to announce sound capital management initiatives in the form of a 25cps fully franked special dividend and an initial $50m Share Buy-Back plan. The record final dividend of 54 cents declared took the full year ordinary dividend to $1.00/share ($1.25 fully franked including the special). In a further show of confidence, PMV reported total sales for the first 7 weeks +46.7% on 1H22 and +21.5% on 1H20 (i.e. pre-COVID). The strong 1H23 commencement was boosted by what the company described as a "clean inventory position" to drive Black Friday, Cyber Monday, Christmas, Boxing Day and 'Back to School' sales periods. This bodes well for 1H23 and investors reacted accordingly, driving the stock up 14.6% on the day of the release.

Brickworks (BKW +5.5%)

BKW is a building products manufacturer, property developer/investor and an investment company via its cross share holding in Washington H. Soul Pattinson and Company (SOL) in which it holds 26%. BKW reported strong FY22 performance numbers in September, with underlying EBIT $897m beating consensus 12%. Property was once again the key beat, while Building Products and Investments also outperformed market expectations. BKW gave no specific quantitative FY23 guidance, but BKW expects a solid pipeline from Property and continued pipeline in Building Products Australia and North America. Investors liked the result, pushing the stock up 6% on the day.

ResMed (RMD +5.3%)

Philips Respironics, the major competitor to RMD in the sleep apnoea market announced yet another product recall, this time with their masks. The US FDA has issued a recall for certain Philips CPAP masks (including Philips' flagship DreamWear full face mask) that have magnetic clips. These magnets have been found to interfere with certain implanted metallic medical devices (e.g. pacemakers, stents) and metallic objects (e.g.metallic joint replacements) in the body which could cause injury or death. More than 17 million masks are impacted by this recall, with the FDA recommending patients to stop their use. Given the frequent re-supply of masks (~3 masks p.a.), patients need to either switch to an alternative Philips product or a competitor such as RMD over the next 6-12 months. This news was obviously positive for RMD and the market reacted accordingly.

Mineral Resources (MIN +4.5%)

Western Australian Mining services provider, iron ore and lithium producer MIN's share price got a boost from media speculation that it was considering a potential spin off and listing of its lithium business. This was notwithstanding that the company put out a release which reiterated that it was not sufficiently advanced or certain to warrant any such disclosure.

The Market Misses

Link Administration Holdings (LNK -31.7%)

With the Dye & Durham ("D&D") revised deal not proceeding as a result of the Conditions Precedent to the Scheme not being satisfied, coupled with the prospect of Link receiving a hefty fine and restitution payment from the UK's FCA, Link shares sold off heavily during the month of September. The share price, which hit an intra-month high of $4.58, now seems to be partly factoring in a potential capital raising to fund the liability. Towards month end, Link announced that they would continue with their previously stated going concern plan of divesting a minimum of 80% of their PEXA holding in-specie and decided to imminently pay an 8cps special dividend, all to no avail. The huge penalty of up to A$620m has created significant uncertainty in the eyes of investors. As it currently stands, under the draft FCA warning notice, Link Fund Solutions ("LFSL") faces a penalty of £50m and a restitution payment of UK£306m. However, this may not be the end of the matter, with the FCA normally giving a reasonable period during which LFSL can engage in order to resolve the case, which may include obtaining a discount for early resolution. The stumbling block, however, is that any appeals process could take up to ~18 months. The company has not made any commitment to fund or financially support LFSL and has considered that any liabilities relating to the Woodford matters should be confined to LFSL. Given it has other UK regulated businesses, this may not be practical and as a result, investors and risk arb players (tail between their legs), headed for the exit gate en masse….

Imugene (IMU -30.8%)

IMU is a clinical stage immune-oncology company that is focused on developing a range of immunotherapies to treat and eradicate tumours across various cancer indications. IMU raised $80m during the month via an institutional placement at an 11% discount. It looks like last year's capital raising which was to give them a runway to 2026 was not enough…. The placement weighed heavily on the stock price, which ended the month at a 7% discount to the placement price.

Novonix (NVX -27.3%)

Aspiring synthetic graphite producer, NVX focused on the battery anode, rather than lithium used in the battery cathode, fell another 27.5%. This was after its share price was off 14.5% the previous month, chalking up a 74% fall for the rolling year and down 86% from its November 2021 high. A lack of any fresh news flow, for a fledgling company, a long way away from validating its enterprise value, didn't help.

Telix Pharmaceuticals (TLX -23.7%)

Renal and prostate cancer diagnostic imaging bio-tech company TLX suddenly withdrew its marketing authorisation application for ILLUCCIX in Europe, given its inability to meet the Information Request deadline following last minute requests by the regulator for more data. The issues specifically relate to the manufacturing process of ILLUCCIX and not to the underlying clinical data. At the crux of TLX's regulatory hurdle in Europe, is ILLUCCIX's cold kit approach, which is relatively innovative compared with the traditionally synthesised format. To demonstrate clinical comparability, TLX included a bridging study in the original submission. However, subsequent to this, a monograph used by physicians in Europe to guide the manufacture of gallium-68 PSMA doses was published using the traditional synthesised method. Given it was very late into the review period, the Danish Medicines Agency requested additional chemistry, manufacturing and controls data to demonstrate manufacturing efficacy. Whilst TLX remains confident that it can meet these data requirements, the time line was too tight (possibly taking months) and given TLX had already extended this deadline back in February 2022 (due to COVID interruptions), TLX decided to withdraw its application. The share price reaction was savage.

Lake Resources (LKE -23.5%) / Core Lithium (CXO -21.1%) / Sayona Mining (SYA -20.3%)

As previously mentioned above, lithium developers and hopefuls with zero operating cash-flow didn't fare very well globally. With equity markets in a more risk-off environment, anything to do with EV have been crowded thematic trades, trading more like tech stocks rather than miners or potential miners.

IRESS (IRE -21.1%)

On the second last day of the month, IRE announced a FY22 constant currency guidance downgrade, with the company now targeting FY22 Segment Profit of $166-170m (vs. guidance towards the low-end of it $177-183m range). At the mid-point, this was 5% below its FY22 previous Segment Profit expectations. Recent significant moves in the GBP has impacted the reported result, coupled with timing delays in converting sales opportunities. The primary contributor (~75%) to the downgrade was the extension to the sales cycles on new client opportunities in APAC and in Mortgages, resulting in revenue previously anticipated in 2022 being pushed out into 2023. With new client wins anticipated, IRE added to its cost base to facilitate project delivery, but with revenue being deferred, profits were meaningfully squeezed. The other key driver was higher than anticipated supplier costs, particularly in US dollar priced technology and software.

On the flip side, IRE announced that it had won a large initial 5-year super-admin contract with Commonwealth Superannuation Corporation (CSC), which missed the FY22 cut off, but will positively impact 2023. IRE was selected to provide Acurity software for the CSC's defined benefit schemes for over 500,000 customers. This should deliver the consolidation of legacy and disparate systems, migrate all products on a single registry for cost efficiencies, and enhance access to key data. "Contract wins like these, will help build a more profitable long term business" and the management and board remain committed to their 5 year targets. Despite many of the factors driving the downgrade being transitory in nature and despite the finalisation of the master service agreement and contract win, the disappointing profit update caused the stock to fall 17.3% on the day.

Flight Centre Travel (FLT -20.6%)

No real news from FLT during the month, other than continuing to state that it was still too early to provide any realistic FY23 guidance. Recession concerns, as well as a weaker Australian dollar, didn't help sentiment in this highly discretionary sector, with Webjet, one of its less retail focussed peers, down 14%.

Goodman Group (GMG -19.8%)

GMG is the largest industrial property group listed in Australia and was hit very hard by rising interest rates like all property groups in September, but fared worse than its property peers. Industrial property demand has thus far outpaced both retail and office property, given the steady demand for warehousing and similar logistics properties. The accelerated move to on-line business and need for logistics support has been the key factor. This strong demand and ability to lock tenants at very attractive rates has driven capitalisation rates to below 4% and GMG's share price has suffered. With the prospect of higher capitalisation rates, and the prospect of even higher interest rates going forward, GMG finds itself as one of the most negatively leveraged plays in the market.

FUND PERFORMANCE

Equities really struggled in the month of September on the back of global recession fears and an increasingly hawkish Federal Reserve. The MSCI Developed Markets Index fell (-8.3%) and the S&P 500 sold off sharply, finishing down 9.2% in local currency terms.

Against the above backdrop, the Fund delivered a return of -6.8% and underperformed the ASX200 Accumulation Index return of -6.2%.

Major banks outperformed the market in September with a return of -4.3%, better than the benchmark of -6.2%, impacting the Fund's performance as it holds no banks.

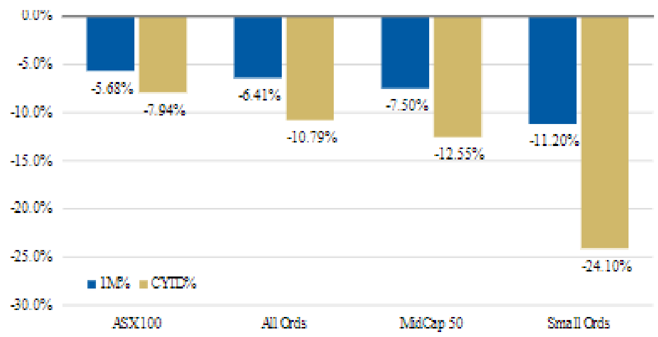
Investors relentlessly chased lithium stocks such as Pilbara Minerals (+24.9%) and coal producers, New Hope Corporation (+28.4%) and Whitehaven Coal (+18.9%).

Large Cap stocks outperformed this month relative to their Mid Cap counterparts. The Materials sector was easily the best performer (led by BHP Group), followed by Energy (Whitehaven Coal), and Health Care (ResMed).

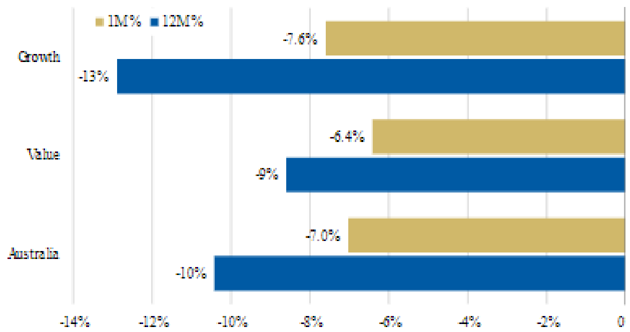
Information Technology and Real Estate were two of the three weakest performing sectors. Utilities closed down 13.8%, impacted by higher bond rates and fared the worst (Origin Energy was down 15.8% and APA Group fell 13.5%).

The ASX200 continued to outperform its global peers for the month of September, cementing its CYTD22 outperformance vs. most developed and emerging markets.

Large Caps outperformed in September and still lead CYTD



Value outperformed Growth in September

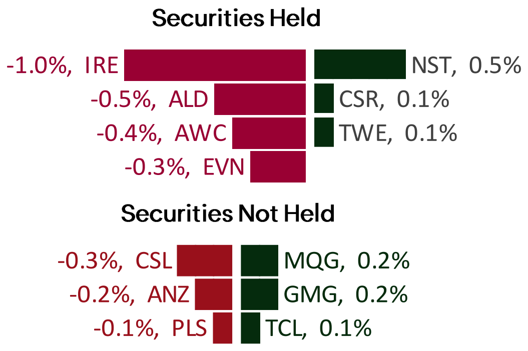


Source: Morgan Stanley.

Returns^ (%)	*Gross*	*Benchmark**	*Excess*	*Net*
1 Month	-6.77	-6.17	-0.60	-6.84
FYTD	-1.59	0.39	-1.98	-1.84
1 Year	-5.78	-7.69	1.91	-6.75
2 Years (p.a.)	14.29	9.78	4.50	13.06
3 Years (p.a.)	5.34	2.67	2.67	4.23
5 Years (p.a.)	6.55	6.76	-0.21	5.48
10 Years (p.a.)	8.47	8.41	0.06	7.37
*Since inception (p.a.)***	7.81	7.89	-0.08	6.68

^The return figures are calculated using the redemption price for Class A Units and are and are net of fees and expenses. Returns are also calculated on the basis that distributions are reinvested. Returns of the Fund may include audited and un-audited results. Past performance is not a reliable indicator of future performance.
* The benchmark was changed from the S&P/ASX 200 Accumulation Ex REITS Index to the S&P/ASX 200 Accumulation Index on 1 July 2012.
** Since Inception is 1 July 2011.

Month of September Attribution



Source: Ellerston Capital.

For the month, the main positive contributors were active overweight positions in: Northern Star Resources (NST +0.9%), CSR (CSR -1.8%) and Treasury Wine Estates (TWE -4.7%).

Zero holdings in select large cap stocks that underperformed also helped, namely Macquarie Group (MQG -13.8%), Goodman Group (-19.8%) and Transurban Group (TCL -11.6%).

The main detractors to performance for the month were overweight positions in: IRESS (IRE -21.1%, refer to the commentary in market misses section on p6), Ampol (ALD -13.7%), Alumina (AWC -16.5%) and Evolution Mining (EVN -14.2%).

Not holding any CSL (CLS -2.3%), ANZ Bank (ANZ -0.1%) and Pilbara Minerals (PLS, +24.9%) constrained returns.

FUND ACTIVITY

Again, with volatile intra-month swings during September, particularly in the first half of the month, we made further portfolio adjustments. We exited remnant positions in Ansell, GrainCorp, James Hardie, OZ Minerals and ResMed. Regarding Ansell, we were very concerned about the unstable political situation and collapsing economy in Sri Lanka, where Ansell has its two main manufacturing plants and R&D centre. Anything could happen there and we deemed the civil and social unrest just too risky.

Holdings in Alumina and Seven West Media were also reduced into share price strength to help fund other purchases. The existing holdings in **Amcor, BHP Group. CSR, News Corporation, Northern Star Resources, Reliance Worldwide, The Lottery Corporation and Treasury Wine Estates (see stock in focus below) were strengthened and Harvey Norman Holdings was introduced into the portfolio (also see write-up below).**

Despite the short term set back in IRESS, we strengthened the position post the downgrade as we believe the market had over-reacted. It remains a high conviction portfolio holding.

NEW STOCKS ADDED	STOCKS EXITED
• Harvey Norman Holdings	• Ansell
	• GrainCorp
	• James Hardie Industries
	• OZ Minerals
	• ResMed

INCREASED	DECREASED
• Amcor	• Alumina
• BHP Group	• Seven West Media
• CSR	
• IRESS	
• News Corporation	
• Northern Star Resources	
• Reliance Worldwide Corporation	
• The Lottery Corporation	
• Treasury Wine Estates	

Harvey Norman Holdings (HVN)

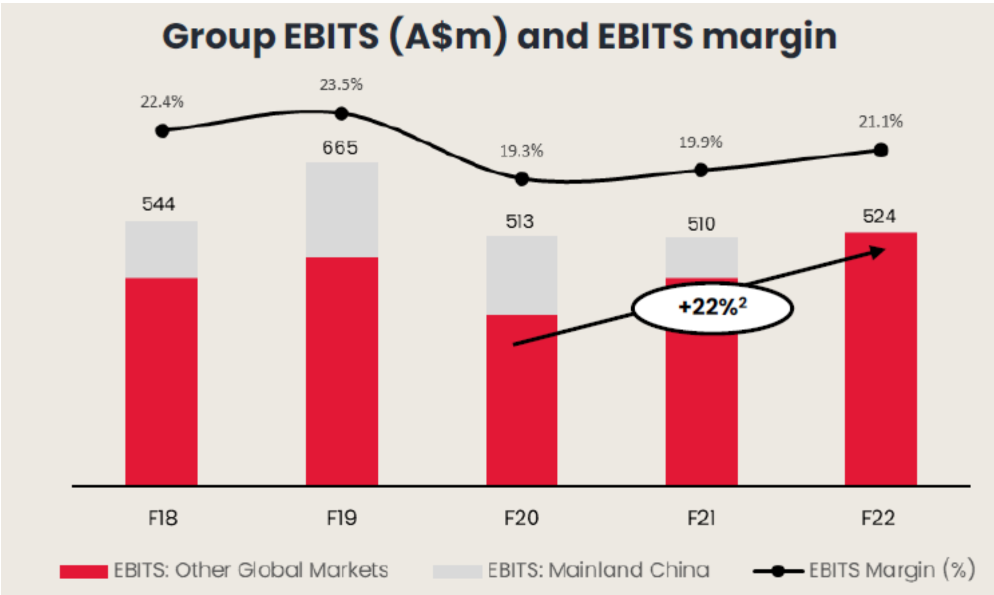
HVN is one of Australia's largest consumer discretionary companies that is well placed to maximise the opportunities in Home and Lifestyle categories via home renovation and new builds. HVN manages the Harvey Norman store network for electrical, computers & communications, small appliances, furniture, bedding, home improvements, lighting and flooring. It operates under various brands - Harvey Norman, Domayne, Joyce Mayne and Space in Australia and the Harvey Norman brand overseas (Southeast Asia, Ireland, Slovenia and Croatia). HVN is predominantly a franchisor in Australia and New Zealand, operating company owned Harvey Norman stores in Europe and Southeast Asia. HVN, together with its peers, delivered strong earnings and dividends in FY22, however, they have all sold-off around 30%-35% in the past 6 or so months on expectations of much weaker consumer demand due to higher interest rates and weaker house prices.

HVN's FY22 profit result announced on 31 Aug was a clean and solid beat, 5.0% ahead of consensus, implying that its 2H22 was over 10% ahead of forecasts. The retail trading update from 1 July 2022 to 29 August 22 was impressive. The business saw a very solid start to FY23, with Australian Franchisees Sales results +10.3% vs pcp (JBH was +9.2% in July by comparison) and NZ Sales were +4.6% (JBH was -0.6% by comparison). Inventory was clean and 2H22 Ebit/Sales of 8.3% was 100 bps above consensus. We believe HVN is in a much better strategic and lower risk position than its peers. Importantly, a fact lost on many investors, is that HVN has large freehold property holdings which at the most recently updated book value, account for $3 per share. This represents a staggering ~80% of HVN's enterprise value. Our conservative valuation assumes close to pre-COVID earnings in FY24 and a significant discount on the company's property assets. Together with a FY23 expected 7.5% fully franked dividend yield, we see HVN, which now trades on an estimated single digit PER for FY23, as a much lower risk consumer discretionary play, potentially delivering a total return of 25% plus. The 9.7x PER for FY23 is premised on consensus FY23 Ebitda collapsing to $1.0bn from $1.44bn last year. Let's see.

Treasury Wine Estates (TWE): Stock in Focus

We have written up TWE in the past, but post the delivery of its stellar full year result in August, there appears to be several tailwinds forming that could present upside risks for FY23. In addition to a favourable Wine Australia report talking up the premium wine growth prospects in key Asia (Ex-China) markets like Thailand, Singapore, Taiwan, Malaysia and Vietnam, TWE should benefit further from the strong USD and falling logistics costs. Together, these drivers have the potential to contribute ~8-10% EPS upside to consensus FY23 numbers. As difficult as it was to fathom at the time, the impost of prohibitive 169.3% China tariffs arguably forced TWE to be transformed into a much more resilient business, ie considerably more diversified in terms of branding and geography. Under CEO Tim Ford, management are executing effectively and there is now a clear growth strategy in the US, which is finally starting to perform after so many false starts.

FY23 is shaping up to be a year of solid revenue growth and continued margin expansion, with the new operating model around brands going according to plan. **Most importantly, the Penfolds reallocation from mainland China has occurred much quicker than we and the market had anticipated**. Penfolds delivered a solid 44.5% margin, much to everyone's surprise. At the August 22 result's update, Tim Ford defined what he meant by "strong" underlying growth expected for FY23. "*I think what we provided today, is extra colour on shape of how that gets to fiscal '23…the strength of underlying growth that we've seen today is 22% EBITS CAGR for the last three years - I think is strong underlying growth*". Management has called out a 25% EBITS margin target (up on 21.1% in FY22), suggesting it will occur in the foreseeable future, at which point a new, higher target will be provided. Price rises have been pushed through across all key growth brands and TWE also just recently launched its first Chinese-produced wine, over and above US grown and branded Penfolds wine from the Napa exported into China.



Unlike many ASX listed stocks, inflationary cost pressures for TWE will be offset by supply chain cost savings (expected to be $65m in FY23 and towards a new targeted $90m by FY25), allowing the business to reap the benefit of price rises which have been implemented and are sticking across key growth brands. Supply chain costs are normalizing : in FY22, supply chain, logistics and packaging costs increased by ~ $25m, however, we observe that global freight rates have fallen over 25% in the past 5 weeks since the August result was announced. This bodes well.

Freightos Baltic Index (FBX): Global Container Freight Index

Source: Freightos Data.

Balance Sheet and Capital Management Prospects: TWE is generating very strong cashflow (with 104% cash conversion) and the balance sheet is in superb shape. Treasury had undergone a deleveraging cycle since reaching a high of 2.2x Net Debt to EBITDAS ratio in FY20. As at June 2022, Net Debt to EBITDAS was down to 1.8x, inside its target range of 1.5x-2.0x. This balance sheet ratio is expected to de-lever further to ~1.6x in FY23 and ~1.3x in FY24. TWE is holding its 2022 AGM on October 18th, 2022. Management may look to announce additional capital management initiatives in conjunction with its usual trading update. The FY22 results just saw a final dividend of 16cps declared, resulting in a full year dividend of 31cps (+10.7% YoY), representing a 69% payout ratio. Management commented that it would assess 'opportunities to supplement' the current dividend policy with capital management in FY23 (current cash balance of A$430mn). **Capital return potential?** We see the prospect for a ~$450m capital return probably in the form of a share buy-back during the course of FY23 and possibly spilling into FY24. This could drive ~3% accretion from an on market buyback, prior to any tax effectiveness if an off-market buyback was to be pursued, monetizing some of the $113m of franking credits on the balance sheet.

Conclusion : As a large active overweight in your portfolio, TWE is a global luxury brand company trading at a material discount to our valuation and to its global peers. We like it.

FUND STRATEGY AND OUTLOOK

Front and centre are investor concerns about a global synchronised growth slow down and recession risk.

Ahead of the Federal Reserve's annual August retreat in Jackson Hole, equity markets were rallying on expectations that Fed might pivot and slow its pace of interest rate hikes. Fed officials believed that investors were misreading their intentions, given their objective of cooling the economy to combat 4 decade high inflation. In his widely anticipated speech, Chairman Jerome Powell was totally blunt, apparently scrapping his original address and instead, delivered unusually brief remarks with a key message - the Fed was prepared to accept a recession as the price of fighting inflation. Powell cited the example of former Fed chairman Paul Volcker, who drove the economy into a hard landing in the early 1980s with punishing interest rate increases to break the back of double-digit price gains. "We must keep at it until the job is done," Mr. Powell said, invoking the title of Mr. Volcker's 2018 autobiography, "Keeping At It."

After the hotter-than-expected inflation print mid-way through the month and Nucor, Huntsman and FedEx Corp.'s profit warnings, there are certainly mounting risks for US earnings and equity valuations. The headwinds to profitability are building - tighter monetary policy and pressure on company margins are obviously the key concerns. While analysts' estimates for US company earnings have been moderating recently (3Q estimate of +3%, down from 10% at the start of the quarter), they are still near record highs. Revisions "are often glacial," and depend heavily on corporate guidance.

Data showing consumer prices rose more than expected in August have again fuelled fears about supersized Federal Reserve rate hikes.

FedEx's shocking warning will no doubt be the first of many to come in the month ahead. Global bellwether company, FedEx, missed it quarterly results by a large margin, painting a very sombre outlook, with North American analysts highlighting that the result was the worst in ~20 Years. Express results were particularly impacted by macroeconomic weakness in Asia and service challenges in Europe, leading to a revenue shortfall in that segment of ~$500 million relative to previous company forecasts. The August quarter results were adversely impacted by global volume softness that accelerated in the final weeks of the quarter. FedEx also announced that it had withdrawn its full year guidance, citing macro trends which had significantly worsened, both internationally and in the US and were likely to deteriorate further. The company expects the benefits of cost actions to mitigate some of the effects of reduced demand throughout the remainder of fiscal 2023. Cost initiatives included: the reduction in flight frequencies and temporarily parking aircraft, volume-related reductions in labour hours and other line-haul expenses, deferral of staff hiring and the closure of over 90 FedEx Office locations. The shares fell a whopping 21.4% on the day.

With US private consumption representing ~68% of its GDP, the consumer is paramount in whether the economy has a soft or hard landing. After observing a number of significant profit warnings recently in the US discretionary basket, it is obvious the US consumer is facing significant headwinds. Here are a few "snapshots" from some US discretionary results:

Nike *"This quarter, it became clear to us that conditions in North America are shifting once again. Earlier ordering by retailers, driven by strong consumer demand and less predictable delivery timelines, has led to elevated inventory levels broadly across consumer goods. When transit times began to rapidly improve that signals that further improvement maybe coming. At the same time, consumers are facing greater economic uncertainty and promotional activity across the marketplace is accelerating, especially in apparel. As a result, we faced a new degree of complexity,"*

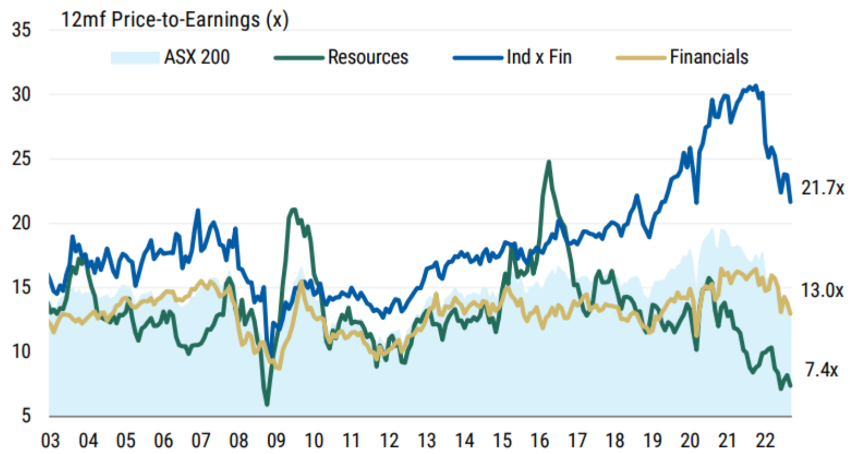
CarMax *"This quarter reflects widespread pressure the used-car industry is facing. Macro factors including vehicle affordability, that stem from persistent and broad inflation, climbing interest rates, and low consumer confidence all led to a market-wide decline in used auto sales. We began the second quarter with a low single-digit decline in comp sales during the June that reflected a continuation of softer, although improving sales, which we discussed on our last earnings call. Comps then fell sharply at the beginning of July, with August ending in mid-teen decline,"*

Bed Bath & Beyond *"BBBY expects incremental clearance / promotions will continue to be a headwind, particularly in 3Q as the company works to clear excess owned brand inventory."*

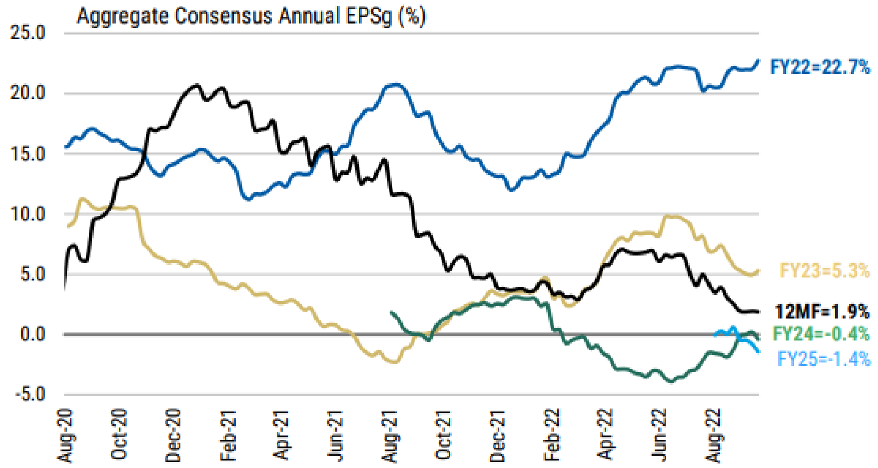
The primary risk and read through domestically, is that as we approach the AGM and 1H23 result's season, we could see margins come under further pressure in certain sectors as a result of businesses not managing inventory levels prudently, coinciding with a slowing demand outlook (i.e. a volume contraction). The question will be, how much is already priced in and reflected in valuations? That said, the "E" could be significantly weaker than expectations. Just look at the S&P500, where US discretionary EPS forecasts into 2023 still look highly inflated at +35.2% yoy growth (they are dreaming). The same cannot be said here locally, where sharp drops in EBITDA and earnings are generally anticipated (JBH and HVN both trade on FY23 PERs of 10x and dividend yields of 6.7% and 7.8% respectively even factoring a macro slowdown is case in point).

The Australian equity market has proven more resilient than its global peers. The domestic market multiples have de-rated meaningfully over the past year, with the 12MF P/E now standing at 12.5x. Industrials ex-Financials have compressed to 21.7x from 30.2x whilst outer-year earnings growth expectations stay fairly anchored in the low-single-digit territory. Resources have fallen from 9.9x to 7.4x through 2022.

Valuation: the 12M forward PE of the Industrials ex-Financials has Fallen from 30.2x to 23.7x



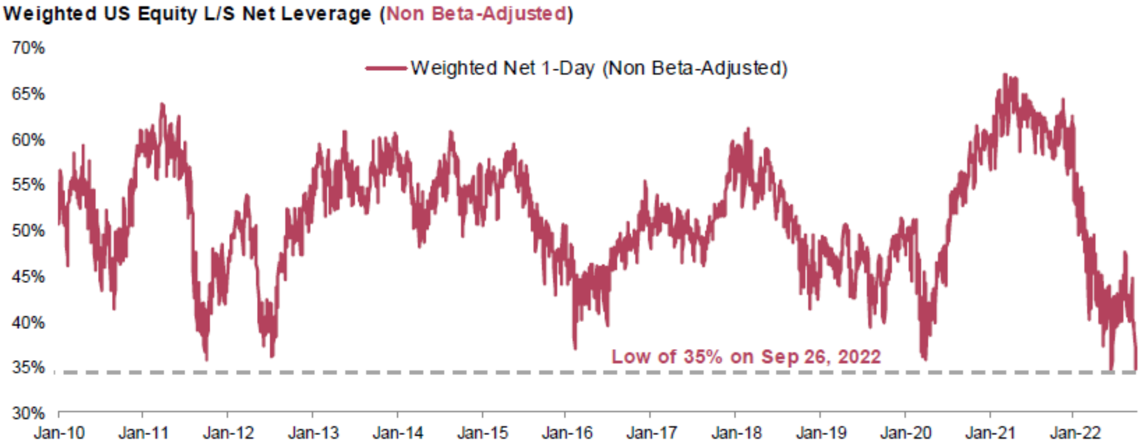
Annual Consensus EPS Growth Trends FY21-24



Source: Morgan Stanley Research.

The investment climate still remains foggy and labile: the US Fed is adamant that it must "keep at it until the job is done" so rates will go higher and a slow-down will ensue, with the unknown being the size and duration. How much is priced in? Time will tell, but it does seem that investors are very cautious (see chart below on net positioning in the US) and equities have fallen a long way already. There will inevitably be more months like July, as well as September, as we transition from the post GFC era of globalisation, fiscal discipline, QE, zero rates, low taxes to one of nationalism, fiscal panic, QT, higher rates and taxes plus a return to the Cold War.

US L/S Net Position – Lowest since April 2009 – Peak Cautiousness?



Source: Morgan Stanley

The recent BOE move to add liquidity to the long end of the yield curve ensuring more financial stability and also, our RBA with a smaller than expected rate hike, may add fire to "pivot speak" speculation, just as we saw in July. Enhanced volatility came with it. The clear message from Fed Governor Powell is that rates will be higher-for-longer. There has also been talk recently about the Fed raising their inflation target above their existing 2% which was hit on the head by Governor Bullard who said: "This is a way to squander your credibility and make the 1970s magically reappear, and the Bee Gees will be back on tour".

Given the extent of the market sell off, we would not be surprised to see powerful short lived relief rallies against the backdrop of elevated volatility. Buckle up, it's going to be a bumpy ride!

To summarise your portfolio's positioning:

1. Quality Franchises, Growth at Reasonable, Attractive Valuations

Solid companies with strong/leading market positions and credible management with good balance sheets.

Amcor, IRESS, Liberty Group, News Corporation and The Lottery Corporation

2. Businesses that are highly cyclical or seasonal in nature, that have faced headwinds

Heavily discounted companies with strong market positions and strategic assets, but very sensitive to economic conditions/seasonality/weather.

Ampol, CSR, Harvey Norman and Reliance Worldwide Group

3. Turnarounds

Sound businesses that have historically generated poor returns, have been badly managed, resulting in poor execution of strategy and have under-earned versus their potential. These stocks are in a transition phase and we think earnings/returns will improve over the medium term. Out of favour with the market, somewhat contrarian positions.

Seven West Media, Treasury Wine Estates and United Malt

4. Deep Value Resource Plays

Stocks trading at discounts to NPVs, where much of the heavy lifting has been done (cost out, self-help deleveraging). Despite the recent correction in commodity prices, the cycle is still positive, paving the way for healthy dividends.

Alumina, BHP Group, Evolution Mining and Northern Star Resources.

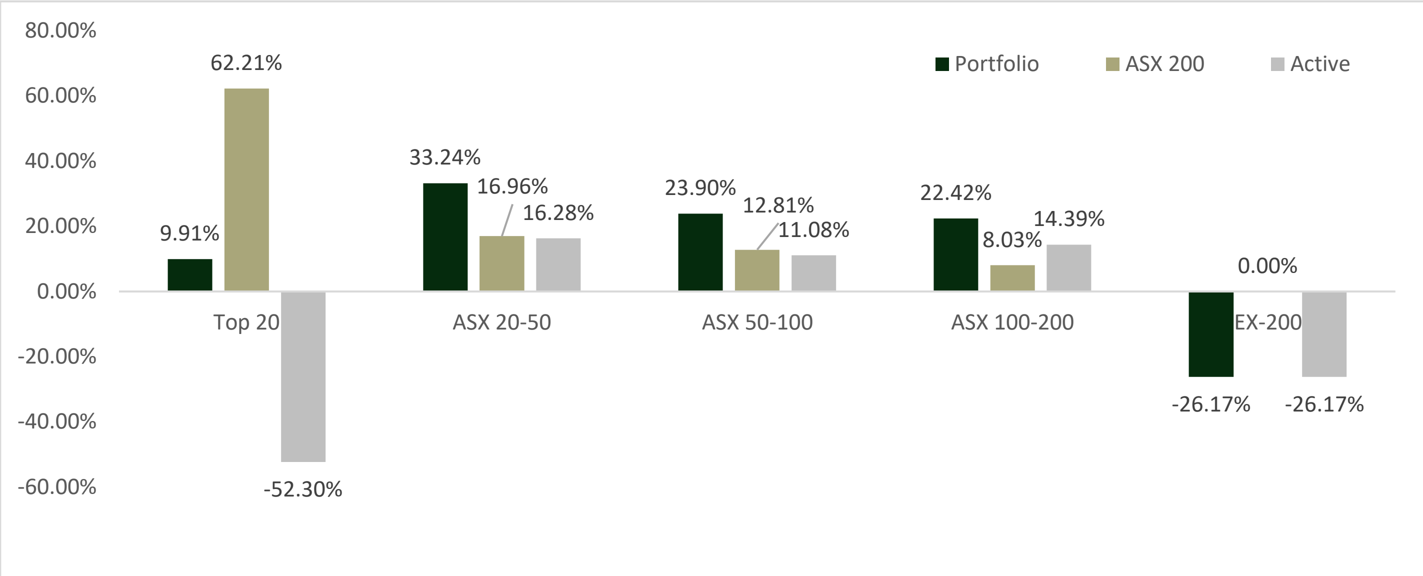
We are truly grateful for, and always appreciate your continued support.

Warm Regards,

Chris Kourtis
Portfolio Manager

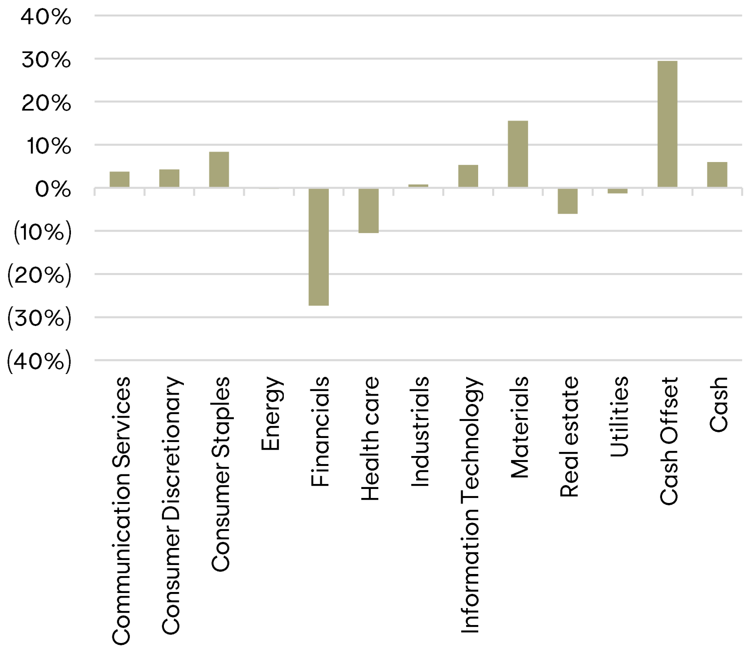
PORTFOLIO FEATURES

Size comparison Chart vs ASX 200^



^Size Comparison Data as at 30 September 2022.
Source: Factset, Ellerston Capital Limited.

Active Sector Exposures*^



TOP 10 HOLDINGS**
AMCOR
AMPOL
BHP
CSR
IRESS
LOTTERY
NEWS CORP
NORTHERN STAR RESOURCES
RELIANCE WORLDWIDE
TREASURY WINE ESTATES

Asset Class Exposures

Exposure (% of NAV)	Net
Equity	92.72
Long Option	0.00
Short Option	-29.43
Cash Offset	30.73
Cash	5.98
Grand Total	100.00

* Active sector exposures are determined by subtracting Fund sector weights from benchmark weights. Positive percentages represent over-weight sector exposures relative to benchmark and negative percentages represent under-weight sector exposures relative to the benchmark.
^Index is FTSE Norges
** Top 10 Holdings are listed in alphabetical order.

ABOUT THE ELLERSTON OVERLAY ASF

The Fund aims to achieve its performance objectives by adopting a fundamental "bottom-up" investment approach to stock selection which is focused on identifying and then constructing a portfolio of the highest conviction ideas.

Investment opportunities for the Fund are identified by analysing and understanding the factors affecting (amongst other things): business model, industry structure, management team and overall valuation. Ellerston Capital typically favours businesses that can sustain high returns or improve their return on capital and looks to invest in businesses with a market value below the value we attribute to them.

Benchmark weightings do not drive our stock decisions, our approach is totally benchmark independent.

Due to the high conviction nature of the portfolio and the resulting deviation in portfolio composition relative to benchmark weighting, it is expected that the returns from the Fund will differ significantly from the broader market indices.

FUND FACTS

STRATEGY FUNDS UNDER MANAGEMENT	$204.3 Million
FUNDS UNDER MANAGEMENT – OASF UNIT TRUST	$8.2 Million
APPLICATION PRICE	$0.9687
REDEMPTION PRICE	$0.9639
NUMBER OF STOCKS	18
INCEPTION DATE	1 July 2011

Source: Ellerston Capital Limited.

Contact Us

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Find out more

For new or additional applications into the Fund, please click here.

Should investors have any questions or queries regarding the Fund, please contact our Investor Relations team on **02 9021 7701** or **info@ellerstoncapital.com** or visit us at **ellerstoncapital.com**

All holding enquiries should be directed to our register, Link Market Services on **1800 992 149** or **ellerston@linkmarketservices.com.au.**